

OMAN TELECOMMUNICATIONS COMPANY SAOG

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 General information

Oman Telecommunications Company SAOG (the parent company or company) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The company's principal place of business is located at Burj Al Khuwair, Sultanate of Oman. The company was established under Royal Decree 46/99 dated 18 July 1999 by the transformation of the General Telecommunications Organisation (the Organisation) into the company. The company completed registration as a closed joint stock company in the Sultanate of Oman on 22 April 2000. In accordance with Royal Decree 46/99, effective 1 August 1999, the company was vested with all the assets and liabilities of the Organisation.

Effective 29 February 2004, the company established a subsidiary company, Oman Mobile Telecommunications Company LLC (the subsidiary or Oman Mobile), the principal activity of which is the provision of mobile telecommunication services. The Government of the Sultanate of Oman (the Government) has established a Telecommunications Regulatory Authority (TRA), which has issued two licences to the company for mobile and other telecommunications services. The licences have been initially accounted for by the group at an aggregate fair value of RO 44.881 million.

Following the issuance of Royal Decree 35/2005, the Ministry of Finance was authorised to dispose of 30% of the Government's interest in the company to new investors. Consequently, the Government sold 30% of its existing shares in the company to the public. The shares were listed on the Muscat Securities Market through an initial public offer (the IPO) on 28 July 2005 and the company became a public joint stock company (SAOG).

The principal activities of the company and Oman Mobile Telecommunications Company LLC (together referred to as the group) are the establishment, operation, maintenance and development of fixed and mobile telecommunication services in the Sultanate of Oman.

The principal activities of the subsidiary and associated companies, which are incorporated in the Sultanate of Oman are set out below.

	Percentage shareholding		Principal activities
	2007	2006	
	%	%	
Oman Mobile Telecommunications Company LLC	99	99	Engaged in the establishment, operation, maintenance and development of mobile telecommunication services.
Oman Fiber Optic Company SAOG	25.96	25.96	Engaged in the manufacture and design of optical fibre and cables.
Infoline LLC	45	45	Engaged in the provision of IT enabled services.
Omania e-commerce LLC	40	40	Engaged in the provision of e-commerce services.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated.

2.1 Basis of preparation

- (a) The financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below and in accordance with International Financial Reporting Standards (IFRS) and comply with the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority of the Sultanate of Oman.
- (b) The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Adoption of new and revised International Financial Reporting Standards (IFRS)

For the year ended 31 December 2007, the group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2007. The adoption of these standards and interpretations has not resulted in changes to the group's accounting policies and has not affected the amounts reported for the current or prior periods.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective :

	Effective for annual periods beginning on or after
IFRIC 11: IFRS 2: Group and Treasury Share Transactions	1 March 2007
IFRIC 12: Service Concession Arrangements	1 January 2008
IFRIC 14: IAS 19-The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction	1 January 2008
IFRIC 13: Customer Loyalty Programs	1 July 2008
IFRS 2: (Revised) Shared-based Payment	1 January 2009
IFRS 8: Operating Segments	1 January 2009
IAS 1: (Revised) Presentation of Financial Statements	1 January 2009
IAS 23: (Revised) Borrowing Costs	1 January 2009
IAS 32: (Revised) Financial Instruments: Presentation	1 January 2009
IFRS 3: (Revised) Business Combinations	1 July 2009
IAS 27: (Revised) Consolidated and Separate Financial Statements	1 July 2009
IAS 28: (Revised) Investments in Associates	1 July 2009
IAS 31: (Revised) Interests in Joint Ventures	1 July 2009

The management anticipate that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the group.

2.2 Consolidation

2.2.1 Subsidiary companies

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the group.

2.2.2 Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Acquisitions result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)****2 Summary of significant accounting policies (continued)****2.2 Consolidation (continued)****2.2.3 Associated companies**

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the parent company financial statements the investments in associated companies are stated at cost.

2.3 Segment reporting

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2.4 Service revenue

Revenue comprises fixed telephone, Global System for Mobile Communication (GSM), internet, telex and telegram revenue, equipment rentals and amounts derived from the sale of telecommunication equipment and other associated services falling within the group's ordinary activities. Revenue from fixed lines, GSM and internet services is recognised when the services are provided.

Revenue from rentals and installations is based on a time proportion basis and on actual installation of telecommunication equipment, respectively.

Sales of payphone and prepaid cards are recognised as revenue based on the estimated utilisation of the payphone and prepaid cards sold.

Sales relating to unutilised payphone and prepaid cards are accounted for as deferred income.

Interconnection income and expenses are recognised when services are performed.

2.5 Finance income / costs

Net finance income comprises interest income on funds invested, dividend income, foreign exchange gains and losses, unrealised gains and losses arising from fair value adjustments of investments at fair value through profit or loss and held for trading less interest costs on borrowings.

Interest income is accounted for on the accrual basis.

Dividend income is accounted for when the right to receipt is established.

2.6 Commission

Commission comprises commission payable to factoring and collection agents and agents that sell prepaid cards. Commission payable to factoring agents is accounted for at the time of the assignment of receivables. Commission payable to selling agents is accounted for at the time of the sale of cards to the agents. Commission payable to collection agents is accounted for at the time of collection of the bills.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

2 Summary of significant accounting policies (continued)

2.7 Foreign currency

Items included in the financial statements of each of the group entities are measured using Rials Omani (RO) which is the functional currency of the primary economic environment in which the group operates. The consolidated financial statements are presented in Rials Omani, which is the parent company's functional and presentation currency, rounded off to the nearest thousand.

Foreign currency transactions are translated into Rials Omani at the exchange rate prevailing on the transaction date. Monetary foreign currency assets and liabilities are translated into Rials Omani at the exchange rate prevailing at the balance sheet date. Differences on exchange are dealt with in the income statement.

2.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses, if any. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be measured reliably. All other expenditure is recognised in the income statement as an expense as incurred.

The cost of property, plant and equipment is written off in equal instalments over the expected useful lives of the assets. The estimated useful lives are:

	Years
Buildings	5 - 20
Cables and transmission equipment	5 - 30
Telephone exchanges, power equipment and related software	3 - 20
Telephone, telex and related equipment	1 - 5
Satellite communication equipment	5 - 14
Furniture and office equipment	3 - 5
Motor vehicles and equipment	3 - 5

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

During the year, the subsidiary company revised the estimated useful lives of its fixed assets. The impact of revision in the estimated useful lives of assets is accounted for prospectively. The depreciation expense for the year is higher by RO 4.185 million due to the revision in the estimated useful lives of the fixed assets.

Freehold land is not depreciated as it is deemed to have an indefinite life.

Capital work-in-progress is not depreciated until it is taken to fixed assets when the asset is available for use.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining profit before taxation.

2.9 Impairment

At each balance sheet date, the group reviews the carrying amounts of its assets (or cash-generating units) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)****2 Summary of significant accounting policies (continued)****2.10 Licences**

Licences acquired from the Telecommunications Regulatory Authority are recognised at fair value less any subsequent amortisation and impairment losses. The fixed and mobile licences are amortised on a straight line basis over the licence periods of 25 and 15 years, respectively.

2.11.1 Assets at fair value through profit or loss

Financial assets at fair value through profit or loss principally comprise of marketable securities. A financial asset is held in this category if acquired principally for the purpose of short-term profit taking or if so designated by management. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. These assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. The fair values of quoted investments in active markets are based on current bid prices.

2.11.2 Investments held for trading

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments. All purchases and sale of investments are recognised on the trade date, which is the date that the group commits to purchase or sell the asset. Trading investments are initially recognised at cost, which includes transaction costs, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise.

2.12 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first-in, first-out principle and includes expenditure incurred in purchasing stock and bringing it to its existing location and condition. Net realisable value is the price at which stock can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow-moving and defective items.

2.13 Trade and other receivables

Trade and other receivables are stated at their nominal value less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

2.14 Cash and cash equivalents

For the purpose of the cash flow statement, all bank balances, including short term deposits with a maturity of three months or less from the date of placement and cash on hand, are considered to be cash and cash equivalents.

2.15 Borrowings

Borrowings are stated at proceeds received less repayments made. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the group's employees at the balance sheet date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the balance sheet date. These accruals are included in current liabilities, while those relating to end of service benefits are disclosed as non-current liabilities.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the income statement as incurred.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)****2 Summary of significant accounting policies (continued)****2.17 Trade and other payables**

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the group.

2.18 Taxation

Taxation is provided in accordance with the fiscal regulations in the Sultanate of Oman. Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted or substantially enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on fixed assets and the provisions for doubtful debts and slow moving stocks.

2.19 Directors' remuneration

Directors' remuneration is computed in accordance with the provisions of the Commercial Companies Law and the requirements of Capital Market Authority.

2.20 Dividend distribution

The Board adopts a prudent dividend policy, which complies with regulatory requirements applicable in the Sultanate of Oman. Dividend shall be distributed in accordance with Company's Memorandum of Association and shall be subject to the approval of shareholders.

3 Financial risk management

Financial instruments carried on the balance sheet comprise cash and cash equivalents, receivables, payables and borrowings.

3.1 Financial risk factors**Overview**

The Board of Directors has overall responsibility for the establishment and oversight of group's risk management framework. The Board has established the Executive Committee which is responsible for developing and monitoring the group's risk management policies. The Committee reports regularly to the Board of Directors on its activities. The Management team develops methods of monitoring group's risk management policies, and reports to the Executive Committee who in return report to the Board of Directors.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

The Group Audit Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)****3 Financial risk management (continued)****(i) Credit risk**

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the group's receivables from customers and investment securities.

Trade and other receivables

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically substantial amount of receivables are from customers based in Sultanate of Oman.

The group has established credit policies and procedures that are considered appropriate for a licenced service provider commensurate with the nature and size of receivables. Credit limit for customers are established based on the amount of receivables and age of debts.

In monitoring customer credit risk, customers are segmented according to their credit characteristics in the following categories:

- Private individual customers
- Corporate customers
- Government customers
- Amounts due from the operators

The potential risk in respect of amounts receivable from private customers and corporate customers are significantly mitigated by factoring these receivables to an external agent. Under the terms of the factoring agreement the agent provides adequate cover in the form of a bank guarantee for the receivables assigned. The assigned receivables are without recourse subject to any exceptions and deviation from the agreed credit control norms. Credit risk on the other trade debtors is limited to their carrying values as management regularly reviews these balances whose recoverability is in doubt.

At the balance sheet date amounts receivable from the factoring agent approximate to 40% (2006 - 37%) of the group's total debtors. The bank guarantee provided by the factoring agent represents 39% (2006 - 40%) of the amounts due from them at the balance sheet date.

The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this loss are a specific loss component that relates to individual exposures and a collective loss component established for group of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The group limits its exposure to credit risk by only investing in liquid securities and only with counterparties which have a good credit rating. Given good credit ratings and liquidity, management does not expect any counterparty to fail to meet its obligations.

(ii) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

Typically the group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition the group has access to credit facilities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)****3 Financial risk management (continued)****(iii) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

The group's transactions are primarily in Rial Omani and the group's performance is substantially independent of changes in foreign currency rates as its foreign currency dealings are principally in US Dollars to which the Rial Omani is pegged. There are no significant financial instruments denominated in foreign currency other than US Dollars and consequently management believes that foreign currency risk is not significant.

Interest rate risk

The group has short term deposits and short term borrowings, which are interest bearing and exposed to changes in market interest rates. The group adopts a policy of ensuring that all its borrowing are on a fixed rate basis. The group's deposit placement policies ensure that it obtains the best available interest rates on its short term deposits.

Other market price risk

Equity price risk arises from investments held for trading and at fair value through profit or loss. The primary goal of the group's investment strategy is to maximise investment returns on the surplus cash available. Management is assisted by external advisors in this regard. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

The performance of the investments depends on the MSM Index movement which is exposed to the market risk associated with such investments. Since the investments amount is less than 2% of the group's total assets, the performance of the investments will not have any material impact on the group's performance.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders as well as return on shareholders' equity.

Management is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. Neither the company nor its subsidiary is subject to externally imposed capital requirements.

3.2 Fair value estimation

The fair value of investments is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets.

The fair values of financial assets and liabilities approximate their carrying amounts as stated in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

4 Critical accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty. Actual results may differ from management's estimates resulting in future changes in estimated liabilities and assets.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Cyclone Damage Loss

The group's properties are insured against damage. As part of the damage caused by the cyclone GONU on 6 June 2007, some properties of the group were damaged. An insurance consultant has been engaged by the group to pursue insurance claims from the insurance company. The group has lodged a claim of RO 7.6 million. Surveyors have recommended an interim payment of RO 2 million for the parent company which is recognised as claims receivable (note 13). In case of the subsidiary, the net book value of the assets at 30 June 2007 of RO 459 thousand has been de-recognised and recognised as claims receivable. Management of the subsidiary is confident that the entire amount will be collected from the insurance company. The details of the property damaged and the accounting of the claim is as follows:

	Parent Company 2007 RO'000	Consolidated 2007 RO'000
Claim receivable	2,000	2,459
Less:		
Cost of the assets retired less accumulated depreciation	(1,908)	(2,367)
Gain	92	92

5 Segment reporting

At 31 December 2007, the group is organized into two main business segments:

1. Provision of international and national calls from fixed lines, including rentals and installations of fixed telephones and internet services (fixed lines and other).
2. Operation of Global System for Mobile Communication (GSM) for prepaid and postpaid services, equipment rentals and amounts derived from the sale of telecommunication equipment and other associated services falling within the group's ordinary activities (mobile). From 1 March 2004 this segment has operated separately under the subsidiary.

The segment results for the year ended 31 December 2007 are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Total gross segment revenues	198,987	257,091	(90,767)	365,311
Profit before taxation	99,986	63,271	(33,991)	129,266

The segment results for the year ended 31 December 2006 are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Total gross segment revenues	177,082	228,083	(81,533)	323,632
Profit before taxation	74,763	41,183	(23,827)	92,119

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

5 Segment reporting (continued)

Other segment items for the year ended 31 December 2007 included in the income statement are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
Depreciation	29,617	35,593	65,210
Amortisation	300	2,493	2,793

Other segment items for the year ended 31 December 2006 included in the income statement are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
Depreciation	30,064	34,484	64,548
Amortisation	300	2,493	2,793

The segment assets and liabilities at 31 December 2007 and capital expenditures for the year then ended are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Assets	352,843	249,278	(109,705)	492,416
Liabilities	84,397	151,057	(84,986)	150,468
Capital expenditures	16,555	13,386	-	29,941

The segment assets and liabilities at 31 December 2006 and capital expenditures for the year then ended are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Assets	349,136	218,272	(110,100)	457,308
Liabilities	119,435	142,270	(86,600)	175,105
Capital expenditures	24,702	32,770	-	57,472

6 Property, plant and equipment

- (a) The Board of Directors considers that leasehold lands from the Government will continue to be made available for the group's use over the useful economic life of the assets that are situated on such leasehold lands.
- (b) At 1 August 1999, fixed assets having an original cost of approximately RO 430 million and accumulated depreciation of approximately RO 247 million were transferred to the company at their net book value (Note 1).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

6 Property, plant and equipment (continued)

Consolidated - Movement in property, plant and equipment

	Freehold Land RO'000	Buildings RO'000	Cables and transmission equipment RO'000	Telephone exchanges, power equipment and related software RO'000	Telephone, telex and related equipment RO'000	Satellite communication equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work- in- progress RO'000	Total RO'000
Cost										
1 January 2007	696	29,299	207,852	302,437	6,854	6,887	21,185	3,073	23,700	601,983
Additions	17	51	416	233	102	4	887	278	27,953	29,941
Transfers	-	2,345	9,261	21,971	135	24	1,676	-	(35,412)	-
Reclassification	-	14,116	5,712	(18,014)	717	669	(3,209)	-	9	-
Disposals/Write off (Note 4)	-	(49)	(5,857)	(1,513)	-	-	(68)	(463)	-	(7,950)
31 December 2007	713	45,762	217,384	305,114	7,808	7,584	20,471	2,888	16,250	623,974
Depreciation										
1 January 2007	-	12,857	86,708	158,480	6,215	4,814	17,400	2,417	-	288,891
Charge for the year	-	2,400	12,615	46,209	453	385	2,891	257	-	65,210
Reclassification	-	9,044	3,344	(10,422)	717	318	(3,001)	-	-	-
Disposals/Write off (Note 4)	-	(10)	(3,989)	(938)	-	-	(68)	(437)	-	(5,442)
31 December 2007	-	24,291	98,678	193,329	7,385	5,517	17,222	2,237	-	348,659
Net book amount										
At 31 December 2007	713	21,471	118,706	111,785	423	2,067	3,249	651	16,250	275,315

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

6 Property, plant and equipment (continued)

Consolidated - Movement in property, plant and equipment

	Freehold Land RO'000	Buildings RO'000	Cables and transmission equipment RO'000	Telephone exchanges, power equipment and related software RO'000	Telephone, telex and related equipment RO'000	Satellite communication equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work in progress RO'000	Assets in use but awaiting capitalisation RO'000	Total RO'000
Cost											
1 January 2006	677	21,155	160,799	200,206	6,654	6,612	18,278	2,931	29,270	98,013	544,595
Additions	7	443	566	15,338	56	114	500	175	29,417	10,856	57,472
Transfers	12	7,701	46,487	86,893	144	161	2,407	51	(34,987)	(108,869)	-
Disposals	-	-	-	-	-	-	-	(84)	-	-	(84)
31 December 2006	696	29,299	207,852	302,437	6,854	6,887	21,185	3,073	23,700	-	601,983
Depreciation											
1 January 2006	-	10,383	71,176	106,656	5,229	4,292	13,511	2,066	-	11,114	224,427
Charge for the year	-	2,474	15,532	51,824	986	522	3,889	435	-	(11,114)	64,548
Disposals	-	-	-	-	-	-	-	(84)	-	-	(84)
31 December 2006	-	12,857	86,708	158,480	6,215	4,814	17,400	2,417	-	-	288,891
Net book amount At 31 December 2006	696	16,442	121,144	143,957	639	2,073	3,785	656	23,700	-	313,092

OMAN TELECOMMUNICATIONS COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

6 Property, plant and equipment (continued)

Parent - Movement in property, plant and equipment

	Freehold land RO'000	Buildings RO'000	Cables and transmission equipment RO'000	Telephone exchanges and power equipment RO'000	Telephone, telex and related equipment RO'000	Satellite communication equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work in progress RO'000	Total RO'000
Cost										
1 January 2007	648	20,564	203,346	78,470	6,798	6,501	19,186	2,226	10,537	348,276
Additions	17	31	416	66	4	-	416	196	15,409	16,555
Transfers	-	322	8,550	6,108	135	(41)	1,225	-	(16,299)	-
Disposals/Write off (Note 4)	-	(6)	(5,847)	(429)	-	-	(68)	(401)	-	(6,751)
Reclassification	-	3	66	2,527	200	-	(2,796)	-	-	-
31 December 2007	665	20,914	206,531	86,742	7,137	6,460	17,963	2,021	9,647	358,080
Depreciation										
1 January 2007	-	10,760	85,531	53,676	6,179	4,650	16,383	1,968	-	179,147
Charge for the year	-	949	11,782	14,083	440	211	2,036	116	-	29,617
Disposals/Write off (Note 4)	-	(6)	(3,984)	(269)	-	-	(68)	(380)	-	(4,707)
Reclassification	-	-	7	2,381	200	-	(2,588)	-	-	-
31 December 2007	-	11,703	93,336	69,871	6,819	4,861	15,763	1,704	-	204,057
Net book value										
At 31 December 2007	665	9,211	113,195	16,871	318	1,599	2,200	317	9,647	154,023

OMAN TELECOMMUNICATIONS COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

6 Property, plant and equipment (continued)

Parent - Movement in property, plant and equipment

	Freehold land RO'000	Buildings RO'000	Cables and transmission equipment RO'000	Telephone exchanges and power equipment RO'000	Telephone, telex and related equipment RO'000	Satellite communication equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work- in- progress RO'000	Assets in use but awaiting capitalisation RO'000	Total RO'000
Cost											
1 January 2006	647	16,707	160,363	63,890	6,598	6,337	16,534	2,209	4,286	46,087	323,658
Additions	-	79	163	92	56	114	229	50	10,937	12,982	24,702
Transfers	1	3,778	42,820	14,488	144	50	2,423	51	(4,686)	(59,069)	-
Disposals	-	-	-	-	-	-	-	(84)	-	-	(84)
31 December 2006	648	20,564	203,346	78,470	6,798	6,501	19,186	2,226	10,537	-	348,276
Depreciation											
1 January 2006	-	9,510	71,000	38,405	5,199	4,223	12,941	1,784	-	6,105	149,167
Charge for the year	-	1,250	14,531	15,271	980	427	3,442	268	-	(6,105)	30,064
Disposals	-	-	-	-	-	-	-	(84)	-	-	(84)
31 December 2006	-	10,760	85,531	53,676	6,179	4,650	16,383	1,968	-	-	179,147
Net book value At 31 December 2006	648	9,804	117,815	24,794	619	1,851	2,803	258	10,537	-	169,129

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

7 Investment in subsidiary

The investment in subsidiary company (Oman Mobile Telecommunications Company LLC) is stated at cost less provision for impairment, if any.

8 Licences

The movement in licences is as follows:

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
At 1 January	6,621	6,921	36,815	39,608
Charge for the year	(300)	(300)	(2,793)	(2,793)
At 31 December	6,321	6,621	34,022	36,815

(a) On 11 February 2004 the TRA issued licences to the group for mobile and fixed line telecommunication services at a cost of RO 500,000 and RO 200,000 and for periods of 15 and 25 years respectively.

The group engaged an independent firm of consultants to determine the fair value of the licences as at 11 February 2004, who determined the fair value of the fixed and mobile licences on an open market basis at approximately RO 44.881 million.

The basis of the valuation was on an assessed open market value of the licences under their current terms as they would apply to a new company obtaining the licences. The reason for adopting the assumption of a 'new company' was in order to differentiate the value of the licences from the other intangible assets that the group owns. Accordingly the value attached to the licences is not a 'special value' to the group of the licences and does not reflect the full value of the intangible assets enjoyed by the group.

The excess of the valuation of the group's licences over the amounts paid to the TRA, representing a fair value gain of RO 44.181 million, has been recognised as a non-distributable capital contribution within equity.

(b) The group is also required to pay an annual licence fee to the TRA.

9 Investments in associated companies

(a) The share of post acquisition profits and the carrying value of the investments in associated companies is as follows:

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Brought forward balance	2,095	2,095	2,318	2,290
Share of profit – net	-	-	302	142
Dividend received	-	-	(132)	(114)
Carried forward balance	2,095	2,095	2,488	2,318

(b) The fair value of the parent company's investment in Oman Fiber Optic Company SAOG, which is listed on the Muscat Securities Market, is RO 2,595,019 (31 December 2006 – RO 2,463,125).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

9 Investments in associated companies (continued)

(c) The summarised financial information of the principal associates, all of which are incorporated in the Sultanate of Oman and one of which is listed, are as follows:

	Assets RO'000	Liabilities RO'000	Revenues RO'000	Profit / (loss) RO'000	Percentage shareholding
2007					
Oman Fiber Optic Co. SAOG	8,970	2,798	5,287	1,133	25.96%
Infoline LLC	1,459	347	1,631	188	45%
Omania e-Commerce LLC	912	79	172	(193)	40%
2006					
Oman Fiber Optic Co. SAOG	7,966	2,684	3,817	562	25.96%
Infoline LLC	1,138	215	1,195	209	45%
Omania e-Commerce LLC	757	48	67	(305)	40%

10(a) Investments at fair value through profit or loss

	Carrying amount as at 31 December 2006 RO'000	Fair value adjustment RO'000	Carrying amount as at 31 December 2007 RO'000
Non-current and unquoted			
Thuraya Telecommunication Company	1,747	422	2,169
Arab Satellite Communications Organisation	2,652	499	3,151
	<u>4,399</u>	<u>921</u>	<u>5,320</u>

The financial assets designated at fair value through profit or loss are equity securities that otherwise would have been classified as available for sale.

10(b) Investments held for trading

Available for trading investments represent quoted marketable securities. These investments are valued at quoted market price at the balance sheet date.

11 Loans to subsidiary

	2007 RO'000	2006 RO'000
Repayable within one year	23,717	22,665
Repayable after one year	10,367	34,631
Total loans	<u>34,084</u>	<u>57,296</u>

Loans to subsidiary company comprise:

- A loan balance of RO 21.786 million (2006: RO 32.700 million) which is repayable in equal annual instalments of RO 10.367 million and carries an interest rate of 4.5% per annum.
- A loan balance of RO 12.298 million (2006: RO 24.596 million) which is interest free and repayable in equal annual instalments of RO 12.298 million.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

12 Inventories

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Stores and spares	5,322	5,623	7,438	7,355
Prepaid cards and handsets	1,010	886	1,510	1,254
	<u>6,332</u>	<u>6,509</u>	<u>8,948</u>	<u>8,609</u>
Provision for inventory obsolescence	(4,362)	(4,362)	(5,191)	(5,191)
	<u>1,970</u>	<u>2,147</u>	<u>3,757</u>	<u>3,418</u>

The movement in the provision for inventory obsolescence is as follows:

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Brought forward balance	4,362	2,873	5,191	3,372
Charge for the year	-	1,489	-	1,819
	<u>4,362</u>	<u>4,362</u>	<u>5,191</u>	<u>5,191</u>

13 Trade and other receivables

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Amounts due from customers	26,965	27,093	29,437	29,208
Amounts due from Oman Investment Finance Company SAOG (OIFC)	13,611	12,794	31,668	29,352
Amounts due from other operators	20,470	13,739	30,926	17,673
Insurance claim receivable (Note 4)	2,000	-	2,459	-
Other receivables	1,482	2,360	1,482	2,360
	<u>64,528</u>	<u>55,986</u>	<u>95,972</u>	<u>78,593</u>
Provision in respect of claims finalized by Ministerial Committee	(3,379)	(3,379)	(3,379)	(3,379)
Provision for impairment of receivables	(25,772)	(26,452)	(36,613)	(37,055)
	<u>(29,151)</u>	<u>(29,831)</u>	<u>(39,992)</u>	<u>(40,434)</u>
Trade and other receivables – (net)	35,377	26,155	55,980	38,159
Prepayments and advances	1,850	1,993	4,557	4,302
	<u>37,227</u>	<u>28,148</u>	<u>60,537</u>	<u>42,461</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

14 Cash and cash equivalents

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Short term bank deposits	21,225	15,785	57,555	38,368
Cash at bank and on hand	11,931	9,772	48,828	16,437
	<u>33,156</u>	<u>25,557</u>	<u>106,383</u>	<u>54,805</u>

Short term deposits are placed with commercial banks at interest rates ranging from 2.3% to 5.3% (2006 – 4.3% to 5.3%) per annum and mature between one and three months from the date of deposit.

15 Receivable from subsidiary

Amounts receivable from subsidiary company are interest free and are repayable within a period of one year.

16 Share capital and dividends

The share capital comprises 750,000,000 (2006 - 750,000,000) ordinary shares of RO 0.100 (2006 - RO 0.100) each fully paid. In accordance with the Ministerial decision at their counsel meeting No. 3/2005 dated 18 January 2005, the par value of each share was reduced from RO 1.000 to RO 0.100. Shareholders of the parent company who own not less than 10% of the parent company's shares at balance sheet date are as follows:

	31 December 2007		31 December 2006	
	Shares held	%	Shares held	%
Government of the Sultanate of Oman	525,000,000	70	525,000,000	70

For the year 2006, a dividend of RO 52.5 million was approved by the shareholders at the Annual General Meeting held on 27 March 2007. In respect of the current year, the Board of Directors proposed that a cash dividend of 100% (2006 - 70%) be distributed to the shareholders. These dividends are subject to approval by the shareholders at the Annual General Meeting.

17 Legal reserve

In accordance with the Commercial Companies Law of Oman, No. 4, 1974, as amended, annual appropriations of 10% of the profit for the year of the company and subsidiary are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the respective entity's paid-up share capital. This reserve is not available for distribution. The balance at the end of the year represents amounts relating to the company and its share of the legal reserve of its subsidiary.

18 Voluntary reserve

In accordance with the Board of Directors' resolution No.16T/5/2000, the parent company and its subsidiary transfer 10% of their annual net profits to a distributable voluntary reserve until it becomes equal to one-half of the respective entity's paid up share capital. The balance at the end of the year represents amounts relating to the parent company and its share of the reserve of its subsidiary.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

19 Borrowings

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO'000	RO'000	RO'000	RO'000
Non-current				
Government loan and other borrowings	13,379	52,251	13,379	52,251
Current portion included under current liabilities	(13,379)	(39,112)	(13,379)	(39,112)
	-	13,139	-	13,139
Current				
Current portion of borrowings from Government	13,379	39,112	13,379	39,112
(a) Maturity of non-current borrowings is as follows:				
1 to 2 years	-	13,139	-	13,139

(b) Effective 20 June 2006, the rate of interest on Government loan has been reduced to 3% per annum.

20 Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12% (2006 - 12%). The net deferred tax liability and deferred tax charge / (credit) in the income statement are attributable to the following items:

Consolidated							
	1 Jan 2007	Reclassifi cation (note below)	Charged / (credited) to income statement	31 Dec 2007	1 Jan 2006	Charged / (credited) to income statement	31 Dec 2006
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Asset							
Tax effect of provisions	(4,364)	-	129	(4,235)	(3,625)	(739)	(4,364)
Liability							
Tax effect of depreciation	9,499	(1,918)	2,630	10,211	5,754	3,745	9,499
	5,135	(1,918)	2,759	5,976	2,129	3,006	5,135

The subsidiary company claimed excess depreciation for tax purposes for the years 2004, 2005 and 2006, resulting in a deferred taxation asset of RO 1.918 million being classified in provision for taxation in the current year.

Parent Company						
	1 Jan 2007	Charged / (credited) to income statement	31 Dec 2007	1 Jan 2006	Charged / (credited) to income statement	31 Dec 2006
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Asset						
Tax effect of provisions	(2,899)	81	(2,818)	(2,463)	(436)	(2,899)
Liability						
Tax effect of depreciation	7,868	2,827	10,695	5,600	2,268	7,868
Tax effect on amortisation	60	-	60	60	-	60
	5,029	2,908	7,937	3,197	1,832	5,029

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

21 Amount payable to the Government

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Brought forward balance	853	2,852	853	2,852
Payments made	(494)	(2,852)	(494)	(2,852)
Write back of impaired debt provision (note 39(b)(ii))	1,096	853	1,831	853
Carried forward balance	1,455	853	2,190	853
Less: current portion	(1,455)	(853)	2,190	(853)
Non current portion	-	-	-	-

As disclosed in note 24, TRA has permitted the deduction of interconnection expenses in relation to local licensed operators. Any concessions granted by the TRA, in respect of royalty paid for the period 11 February 2004 to 31 December 2004, will be transferred to the Government.

22 End of service benefits

The movement in end of service benefits is as follows:

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
1 January	1,573	1,588	1,797	1,741
Charge for the year	346	294	479	365
Payments during the year	(205)	(309)	(226)	(309)
	1,714	1,573	2,050	1,797

23 Trade and other payables

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Trade payables	4,995	3,527	8,670	7,284
Amounts due to other telecommunication administrators	6,681	4,776	17,752	8,566
Retentions payable	7,117	7,501	11,151	14,454
Accruals	12,609	14,496	24,799	21,823
Deferred income	435	365	10,958	6,225
Other payables	3,280	3,112	4,699	5,133
	35,117	33,777	78,029	63,485

24 Royalty payable

In accordance with Article 4(1) of the fixed and mobile licence and as permitted by the TRA, the licencees are required to pay royalty to the TRA at the rate of 10% and 12% respectively of its gross revenue excluding sale of terminal equipment and interconnection expense. Commencing 2005, TRA permitted the group to deduct interconnection expenses in respect of local licensed operations. Commencing 1 January 2007, the licencees are required to pay royalty at the rate of 7% of its gross revenue excluding sale of terminal equipments and interconnection expenses. As a result of the change, royalty expense was reduced by RO 12.976 million (net of tax) for the year ended 31 December 2007.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

25 Net assets per share

Net assets per share attributable to equity holders of the company is calculated by dividing the net assets at year end by the number of shares outstanding at the year end:

	Parent Company		Consolidated	
	2007	2006	2007	2006
Net assets attributable to the equity holders of the company (RO'000)	268,446	229,701	340,968	281,436
Number of shares outstanding at the end of the year (thousands)	750,000	750,000	750,000	750,000
Net assets per share (RO)	0.358	0.306	0.454	0.376

26 External administration revenue

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO'000	RO'000	RO'000	RO'000
Telephones and GSM	27,117	17,904	27,117	17,904

27 Interconnection income and expense

(a) Interconnection income represents the revenue derived from a licensed local mobile operator for the use of transmission equipment, facilities and the charges for the termination of the operator's traffic on the group's network.

(b) Interconnection expense represents the charges paid by the group to a licensed local mobile operator for the termination of the traffic on the network of the operator.

28 Cost of content services

Cost of content services represents the charges paid by the group to various content service providers for provision of audio text services and SMS to TV channels etc.

29 External administration expenses

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO'000	RO'000	RO'000	RO'000
Telephones and GSM	17,443	16,705	17,443	16,705

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

30 Staff costs

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Salaries and allowances	26,026	22,898	34,275	29,766
Social security costs	1,936	1,437	2,341	1,786
End of service benefits	346	294	479	365
Other employee benefits	1,335	1,412	2,555	2,291
	<u>29,643</u>	<u>26,041</u>	<u>39,650</u>	<u>34,208</u>

31 Operating and maintenance expenses

Asset maintenance	4,369	4,687	8,544	6,884
Cost of sale of prepaid products	418	564	3,148	2,783
Satellite channels and frequency rent	4,601	1,988	5,643	3,076
Office rent	926	897	2,348	1,744
Electricity and water	917	1,111	1,376	1,544
Maintenance and hire charges	397	362	1,678	1,115
Petrol, oil and lubricants	329	340	472	471
Insurance	289	187	425	256
Others	1,391	2,881	1,471	2,909
	<u>13,637</u>	<u>13,017</u>	<u>25,105</u>	<u>20,782</u>

32 Administrative expenses

Training costs	1,249	1,035	1,739	1,444
Professional fees for group re-organization	-	548	-	929
Professional consultancy fees	1,569	966	2,323	1,755
Administrative services	836	838	983	959
Business travel	750	491	1,158	723
Office supplies and services	319	501	337	628
	<u>4,723</u>	<u>4,379</u>	<u>6,540</u>	<u>6,438</u>

Professional fees for the group reorganization were incurred in respect of services by a consultant for the enhancement of organizational efficiency and processes.

33 Commission

The group has entered into an agreement with Oman Investment and Finance Company SAOG (OIFC) whereby all amounts due from private customers are assigned and factored to OIFC. The present contract is effective from 1 July 2007 and is valid for a period of three years ending 30 June 2010.

Amounts due from private customers are also collected by the group through its own facilities and through its other collection agents. Commission for such collections are deducted from the commission payable to OIFC.

The group pays commission under the above agreements based on the customer category and the amounts assigned.

In addition, OIFC collects, on behalf of the group, amounts due in respect of customer bills issued prior to the present assignment, for which commission is paid at rates varying in accordance with the age of the amounts collected.

Commission is also paid to agents selling prepaid cards and other services of the group.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

34 Finance income / (costs) – net

	Parent company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Interest income	2,038	2012	3,194	1,291
Exchange (loss)/gain	(214)	43	(214)	43
Dividend income	200	170	68	170
Fair value gain on investments at fair value through profit and loss	921	118	921	118
Fair value gain on investments held for trading	1,553	-	1,553	-
Interest on borrowings	(1,389)	(3,615)	(2,441)	(3,615)
	<u>3,109</u>	<u>(1,272)</u>	<u>3,081</u>	<u>(1,993)</u>

35 Taxation

(a) The tax charge for the year comprises:

	Parent company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Current taxation :				
In respect of current year	5,436	3,605	13,536	8,005
In respect of prior years (note (c) below)	397	-	397	-
Deferred taxation	2,908	1,832	2,759	3,006
	<u>8,741</u>	<u>5,437</u>	<u>16,692</u>	<u>11,011</u>

(b) The reconciliation of tax on the accounting profit at the applicable rate of 12% after the basic exemption limit of RO 30,000 with the taxation charge in the income statement is as follows:

	Parent company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Tax on accounting profit	11,994	8,968	15,505	11,047
Add / (less) tax effect of:				
Expenses not deductible	103	35	465	35
Income not subject to tax (see note below*)	(4,131)	(3,566)	(53)	(71)
Tax of prior years	397	-	397	-
Deferred tax relating to prior years	378	-	378	-
Tax charge as per income statement	<u>8,741</u>	<u>5,437</u>	<u>16,692</u>	<u>11,011</u>

* Includes tax effect of RO 3.93 million (2006 - RO 3.56 million) on dividend received by the company from its subsidiary.

(c) For all years up to 31 December 2006 taxation returns have been filed but have yet to be agreed with the Oman Taxation Authorities. Assessments have been completed up to the year 2001 and a refund has been determined. The company filed an appeal in 2005, in respect of certain disallowances for the period from 1999 to 2001. The appeal has been decided against the company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

36 Earnings per share

The earnings per share has been derived by dividing the profit for the year attributable to the equity holders of the parent company by the weighted average number of shares outstanding.

37 Related parties

Related parties comprise the shareholders, directors, key management personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The group maintains balances with these related parties which arise in the normal course of business from the commercial transactions, and are entered into at terms and conditions which the management consider to be comparable with those adopted for arm's length transactions with third parties.

The group enters into transactions in the normal course of business with concerns in which certain directors of the parent company are interested. The nature and amounts of transactions during the year were as follows:

(i) Purchase of goods and services

	2007	2006
	RO'000	RO'000
Entities under significant influence of the parent company	965	646
Entities with significant influence over the parent company	8,711	10,125
Entity under the control of the parent company	22,323	19,882
	31,999	30,653

(ii) Sale of goods and services

Entity under the control of the parent company	68,443	61,652
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(iii) Remuneration to directors

Parent company

Directors remuneration - non executive	114	84
Directors' sitting fees - non executive	52	43
	166	127

Subsidiary company

Directors' remuneration - executive	32	42
Directors' remuneration- non executive	28	10
Directors' sitting fees - executive	12	28
Directors' sitting fees - non executive	10	7
	82	87

Consolidation

	248	214
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

37 Related parties (continued)

Key management compensation (see note below)

	2007 RO'000	2006 RO'000
Parent company		
Basic salaries and allowances	413	350
Other benefits and expenses	44	12
Social security costs	25	9
	<hr/>	<hr/>
	482	371
	<hr/>	<hr/>
Subsidiary company		
Basic salaries and allowances	370	267
Other benefits and expenses	16	10
Social security costs	15	13
End of service benefits	-	4
	<hr/>	<hr/>
	401	294
	<hr/>	<hr/>
Consolidation	883	665
	<hr/> <hr/>	<hr/> <hr/>

(iv) Balances arising from sales / purchases of goods / services

	2007 RO'000	2006 RO'000
Receivable from related parties	3,163	2,451
	<hr/>	<hr/>
Payable to related parties	84	205
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

38 Commitments

(a) Capital commitments

Capital commitments, for which no provision has been made in these financial statements, in respect of the purchase of fixed assets and investments, are as follows:

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Contracted for	12,187	22,510	53,180	37,117
Authorised but not contracted for	36,218	19,013	88,334	51,461
	<u>48,405</u>	<u>41,523</u>	<u>141,514</u>	<u>88,578</u>

At 31 December 2007, the aggregate capital commitment made by the group on behalf of the Government amounted to RO 1.68 million (31 December 2006 - RO 1.77 million). The group is entitled to recover these amounts from the Government when they fall due for payment.

(b) Contingent liabilities

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Letters of credit	-	-	3,700	-
Bank guarantees	<u>371</u>	<u>115</u>	<u>376</u>	<u>120</u>

(c) Claims

Certain regulatory non-compliance items, due to operational and budgetary constraints, may pose a risk of a penalty being imposed by the TRA. However, neither the amount of penalty nor whether the TRA will actually impose a penalty can be determined at present.

39 Credit risk

a) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the balance sheet date was:

	Parent company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Investments at fair value through profit or loss	5,320	4,399	5,320	4,399
Loans to subsidiary	34,084	57,296	-	-
Trade and other receivables	64,528	55,986	95,972	78,593
Cash and cash equivalents	33,156	25,557	106,383	54,805
Investments held for trading	4,594	-	4,594	-
Receivable from subsidiary	49,303	28,994	-	-
	<u>190,985</u>	<u>172,232</u>	<u>212,269</u>	<u>137,797</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

39 Credit risk (continued)

The maximum exposure to credit risk for trade and other receivables at the balance sheet date by type of customer was:

	Parent company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Oman Investment Finance Company SAOG	13,611	12,794	31,668	29,352
Due from other operators	20,470	13,739	30,926	17,673
Government debts	5,224	6,208	5,371	6,343
Agents for prepaid card sales	-	-	2,325	1,946
Other customers	25,223	23,245	25,682	23,279
	64,528	55,986	95,972	78,593

b) The age of trade receivables and related impairment loss at the balance sheet date was:

Consolidated

	2007		2006	
	Gross RO'000	Impairment RO'000	Gross RO'000	Impairment RO'000
Not past due	28,160	-	19,523	-
Past due 0 - 180 days	14,700	2,018	14,744	2,569
Past due 181 - 365 days	8,575	1,970	10,887	6,707
1 - 2 years	14,633	7,517	6,438	4,619
More than 2 years	29,904	28,487	27,001	26,539
	95,972	39,992	78,593	40,434

Parent company

	2007		2006	
	Gross RO'000	Impairment RO'000	Gross RO'000	Impairment RO'000
Not past due	19,559	-	12,836	-
Past due 0 - 180 days	12,426	1,222	9,765	1,534
Past due 181 - 365 days	4,653	1,970	5,820	1,864
1 - 2 years	6,215	4,627	4,010	3,251
More than 2 years	21,675	21,332	23,555	23,182
	64,528	29,151	55,986	29,831

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

39 Credit risk (continued)

(i) Included in the group's trade receivable balance are debtors with a carrying amount of RO 13.1 million (2006: RO 10.3 million) which are past due at the balance sheet date for which the group has not provided any amount as there has not been a significant change in credit quality and the amounts are still considered recoverable. The group does not hold any collateral over these balances. The average age of these receivables is 170 days. The group's total trade receivables balance which is past due and not impaired is RO 27.8 million (2006: RO 18.6 million).

(ii) The movement in provision for impairment of receivables is as follows :

	Parent Company		Consolidated	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Brought forward balance	29,831	28,536	40,434	36,490
Charge for the year	4,077	3,081	5,811	7,082
Written back during the year payable to government (note below)	(1,096)	(853)	(1,831)	(853)
Written back during the year (note below)	(3,661)	(933)	(4,422)	(2,285)
Carried forward balance	29,151	29,831	39,992	40,434

The allowance accounts in respect of trade receivables are used to record impairment losses unless the group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

Under the terms of the factoring agreement, the factoring agent has recourse for any exceptions and deviations from the agreed credit control norms. Debts written back during the year include:

- (i) Provision no longer considered necessary following the finalisation of the recourse claims under the factoring contracts for the period up to 30 June 2007
- (ii) Recoveries against provisions created in previous years.

In the event of subsequent recovery of the receivables in respect of which provisions had been established at 31 December 2004, the write back of such bad debt provision will be credited and paid to the Government. The write back in respect of provisions established as at 31 December 2004 has been credited to the Government (note 21) and the remaining balance has been credited to the income statement.

40 Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

31 December 2007

a) Consolidated

	Carrying amount RO'000	6 months or Less RO'000	6 - 12 months RO'000	1 - 2 years RO'000	More than 2 years RO'000
Borrowings	13,379	240	13,139	-	-
Amounts payable to Government	2,190	2,190	-	-	-
Trade payables	8,670	8,063	607	-	-
Amount due to other					
Telecommunication administrators	17,752	10,248	7,504	-	-
Retention payable	11,151	6,860	4,291	-	-
Accruals	24,799	24,799	-	-	-
Other payables	4,699	4,699	-	-	-
Royalty payable	32,296	32,296	-	-	-
	114,936	89,395	25,541	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

40 Liquidity risk (continued)

b) Parent company

	Carrying amount RO'000	6 months or less RO'000	6 - 12 Months RO'000	1 - 2 years RO'000	More than 2 years RO'000
Borrowings	13,379	240	13,139	-	-
Amounts payable to Government	1,455	1,455	-	-	-
Trade payables	4,995	4,995	-	-	-
Amount due to other Telecommunication administrators	6,681	6,681	-	-	-
Retention payable	7,117	6,109	1,008	-	-
Accruals	12,609	12,609	-	-	-
Other payables	3,280	3,280	-	-	-
Royalty payable	18,357	18,357	-	-	-
	<u>67,873</u>	<u>53,726</u>	<u>14,147</u>	<u>-</u>	<u>-</u>

31 December 2006

a) Consolidated

	Carrying amount RO'000	6 months or less RO'000	6 - 12 Months RO'000	1 - 2 years RO'000	More than 2 years RO'000
Borrowings	52,251	-	39,112	13,139	-
Amounts payable to Government	853	853	-	-	-
Trade payables	7,284	7,284	-	-	-
Amount due to other Telecommunication administrators	8,566	8,566	-	-	-
Retention payable	14,454	9,924	4,530	-	-
Accruals	21,823	21,823	-	-	-
Other payables	5,133	5,133	-	-	-
Royalty payable	43,026	43,026	-	-	-
	<u>153,390</u>	<u>96,609</u>	<u>43,642</u>	<u>13,139</u>	<u>-</u>

b) Parent company

	Carrying amount RO'000	6 months or less RO'000	6 - 12 Months RO'000	1 - 2 years RO'000	More than 2 years RO'000
Borrowings	52,251	-	39,112	13,139	-
Amounts payable to Government	853	853	-	-	-
Trade payables	3,527	3,527	-	-	-
Amount due to other Telecommunication administrators	4,776	4,776	-	-	-
Retention payable	7,501	3,972	3,529	-	-
Accruals	14,496	14,496	-	-	-
Other payables	3,112	3,112	-	-	-
Royalty payable	21,848	21,848	-	-	-
	<u>108,364</u>	<u>52,584</u>	<u>42,641</u>	<u>13,139</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)**

41 Interest rate risk

At the balance sheet date the interest rate profile of the group's interest bearing financial instruments was:

	Parent Company		Consolidated	
	2007	2006	2007	2006
	RO'000	RO'000	RO'000	RO'000
Fixed rate instruments				
Financial assets	21,225	15,785	57,555	38,368
Financial liabilities	(13,379)	(52,251)	(13,379)	(52,251)
	7,846	(36,466)	44,176	(13,883)

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the balance sheet date would not affect profit or loss.

42 Comparative amounts

Certain comparative amounts have been reclassified to conform to current year presentation.